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SUBJECT: ARGENTINA: PLANNING MINISTER DE VIDO ON ARGENTNE TIES WITH
U.S., VENEZUELA, AND DOMESTIC STRATEGY TO LAUNCH NEW INFRASTRUCTURE
AND "SOCIAL PACT" INITIATIVES

REF: Buenos Aires 496, 407, 356, 288, 230, 07 BsAs 1892

This cable contains business-sensitive information - not for
internet distribution.

Summary

¶1. (SBU) Planning Minister De Vido called A/S Shannon's visit to Buenos Aires a positive step in rebuilding bilateral relations damaged by the earlier Antonini Wilson "suitcase" scandal. He hopes the postponed visits to the United States by former President Nestor Kirchner and Chief of Cabinet Alberto Fernandez can be rescheduled soon and hoped he too might visit the United States. De Vido will travel to Venezuela shortly to sign agreements on a national oil company joint venture to construct an LNG receiving plant in Buenos Aires province's Bahia Blanca. He expressed serious concern over what he saw as a union-driven process of radicalization in Venezuela that is pushing President Chavez further to the left and led to Chavez' decision to nationalize the Argentine-owned Sidor steel plant. De Vido said he was skeptical that Bolivia will meet its contractual obligations to provide Argentina natural gas, even when a second natural gas pipeline linking the two nations is completed in 2010. He noted his recent trip with President Kirchner to Ecuador to sign an accord between GoA state-owned energy company ENARSA and its Ecuadorian counterpart to construct a \$1.5 billion hydro-electric project.

¶2. (SBU) On agricultural sector strife, De Vido called the GoA's strategy of sector-specific dialogues on beef, wheat, and milk "successful" despite ongoing limits on beef and wheat exports that have prompted accusations of bad faith by agrarian associations. He admitted, however, that there had not been good GoA dialogue with farmers earlier. On inflation, he revealed that an upcoming May 7 consumer price index conference here at which U.S., French, and Spanish experts will participate will help the GoA launch a new, more credible CPI index. De Vido also signaled plans on Argentina's May 25 Independence Day for what local pro-government press has called an effort to "re-launch" and give the government some new momentum. The GoA will also release a Bicentennial strategic infrastructure plan detailing development priorities in the transport, telecom, energy and mining, water and sanitation, and school sectors for each of Argentina's 24 provinces and the Buenos Aires metropolitan area. Also on May 25, the GoA will formally launch a "Social Pact" initiative to help reconcile and coordinate interests of the GoA with organizations representing Argentina's

industrial, unions and financial service sectors. This is apparently designed to be an ongoing round table which would stand in contrast to the lack of dialogue which led to the rural sector strike. (SEPTELs will examine further). De Vido also defended the GoA's recent increase in mining sector export tariffs, noted new generation investment plans by U.S. company AES, and supported Exxon's decision not to sell its Argentine refining and gas station assets.
End Summary.

Praising Shannon's Understanding and Patience

¶3. (SBU) In an April 25 meeting with Ambassador, Planning Minister De Vido offered a tour d'horizon of current domestic political and regional challenges facing the GoA, as well as background on the GoA's broad infrastructure development strategic plans and comments on individual U.S. energy company investments in Argentina. His comments on the planned May 25 launch of a new "Social Pact" initiative by the government will be reported Septel.

¶4. (SBU) De Vido called A/S Shannon's March visit to Buenos Aires a positive step in rebuilding bilateral relations damaged by the earlier Antonini Wilson "suitcase" scandal. Shannon, he said, understands the Latin mindset and appreciates the specific characteristics and idiosyncrasies of individual nations. Above all, he praised Shannon's patience, noting that the saying "he who loses patience loses all" has particular relevance for those countries who seek to maintain good working relationships with Argentina.

¶5. (SBU) On the earlier planned but postponed March visits of former president Nestor Kirchner and Chief of Cabinet Alberto Fernandez to New York and Washington, De Vido blamed the extraordinary demands on

Fernandez as a result of the three-week agriculture strike in March. He agreed that these visits are important steps to build mutual confidence that should be rescheduled soon. Ambassador suggested that De Vido himself consider visiting the United States, and De Vido said he would like to do so later in this year.

Ag Sector Strike, Inflation and Curbing the Press

¶6. (SBU) On ongoing GoA negotiations with the agriculture sector on polemical export tariff increases, De Vido was confident that some equitable resolution would be achieved, though he declined to say whether that could happen before the agrarian associations' May 2 strike deadline. He called the GoA's strategy of sector-specific dialogues on beef, wheat, and milk "successful" despite coincident limits on beef and wheat exports managed by Internal Commerce Secretary Moreno that have prompted accusations of bad faith by

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agrarian associations. De Vido noted that Brazil has recently followed Argentina's policy lead in announcing restrictions on rice exports to ensure domestic supplies. But when discussing this idea of a new "Social Pact"/round table among business, unions and government, De Vido said it would be designed to avoid the lack of dialogue between government and the farm organizations which led to the rural sector strike.

¶7. (SBU) Speaking of domestic inflation, De Vido offered his "personal opinion" that there is an urgent need to reach some domestic consensus on how to develop a viable cost of living index that bridges the gap between the GoA's (widely discredited) CPI index and the interest of everyone in moderating inflationary expectations. He noted the upcoming May 7 INDEC CPI conference at which U.S., French and Spanish CPI experts will participate as a step in that direction. On the GoA's high-profile campaign against Clarin, De Vido insisted there were high levels of "disinformation" that justified the GoA's efforts to modify Argentina's radio broadcast law. "If you don't put limits (on the media), they'll say anything," De Vido commented.

Regional Ties - Energy Focus

¶18. (SBU) De Vido said that he would return to Venezuela shortly to sign agreements on a PDVSA/ENARSA joint-venture project (Ref BsAs 288) to construct an LNG receiving plant in Buenos Aires Province's Bahia Blanca. He expressed concern at a union-driven process of radicalization in Venezuela that is pushing President Chavez further and further to the left. De Vido called the GoBRV's decision to nationalize Techint steelmaker Sidor (Ref BsAs 496) a case in point, where demands by seven separate steel factory unions provided the impetus for Chavez' nationalization announcement.

¶19. (SBU) De Vido said he was skeptical that Bolivia would meet its contractual obligations to provide Argentina natural gas, even when a second natural gas pipeline linking the two nations is completed in 2010. He called the President's unsuccessful request at the February 2008 trilateral Argentina/Brazil/Bolivia summit in Buenos Aires that Brazil cede a portion of its Bolivian gas to Argentina an embarrassing "bad call" (Ref BsAs 230). The request should have been posed to President Lula quietly in a bilateral meeting.

¶10. (SBU) De Vido noted his recent trip with CFK to Ecuador to sign an accord between GoA state-owned energy company ENARSA and its Ecuadorian counterpart to construct a \$1.5 billion hydro-electric project. He clarified that the GoA would not/not be contributing capital in support of its 30% share of the project, but rather would work with a number of Argentine private sector players to "channel" their participation in the project. He noted that Eduardo Eurnekian's Americas Group would be in charge of financing, and Enrique Pescarmona's IMPSA group would build turbines for the project.

Bicentennial Infrastructure Plan & Social Pact

¶11. (SBU) On May 25 (one of Argentina's two independence days, the day the first national government was established in 1810, as well as the date former president Nestor Kirchner assumed office in 2003), the GoA will release its Bicentennial strategic infrastructure development plan. De Vido gave Ambassador a bound

300-page text that outlines GoA plans for transport, telecommunications, energy, mining, water, sanitation, and school development for each of Argentina's 24 provinces and the Buenos Aires metropolitan area. "We have a plan, we have a vision," he said. De Vido confirmed that the GoA will also announce on May 25 a "Social Pact" initiative to help reconcile and coordinate interests of the GoA with organizations representing Argentina's industrial, unions, and financial service sectors. Local pro-government press is presenting this Independence Day effort as a means to "relaunch" the government and regain momentum. (Septel will examine this in more detail).

Energy and Mining Sectors

¶12. (SBU) De Vido noted that AES Energy would see him shortly after his meeting with the Ambassador to discuss a new potential generation investment in southern Patagonia. (AES had earlier informed Embassy the company planned to convey to De Vido AES' strong interest in investing roughly \$200 million to build a greenfield 180 MW combined cycle gas generation plant in southern Patagonia. AES currently generates a total of 2,830 MW in nine generation plants here, roughly 12% of total Argentine generation capacity. AES called their new generation investment strategy a "defensive" measure given their large installed generation base here and the GoA's insistence on new investment as a "social obligation" of current sector players.)

¶13. (SBU) On Exxon's recent decision not to sell its Argentine refinery and service station assets, De Vido admitted that the GoA had rejected a possible Esso sale to Brazil's Petrobras to avoid "excessive" Brazilian participation in the downstream refining and

retailing sector. But, he said, the GoA had never really wanted Exxon to leave Argentina. De Vido quoted an old Argentine saying: "He that goes without being thrown out, returns without being called." (Exxon's September 2007 decision to shop its Argentine assets reflected a headquarters-mandated strategic retrenchment in South America -- Exxon subsequently announced it would be selling off its Venezuelan and Brazilian holdings -- as well as growing frustration by Exxon's Argentine execs at a complex and distortive range of GoA market interventions that have made Exxon's Argentine operation only nominally profitable -- Ref 07 BsAs 1892.)

¶14. (SBU) De Vido referred to Apache Energy's longstanding complaint that the GoA's decision to cut gas exports to Chile from Tierra del Fuego has "stranded" large volumes of natural gas in this island province pending a planned expansion of the gas pipeline network connecting Tierra del Fuego with the Argentine mainland. This has had a significant impact on Apache's profitability since over-injection into the existing Tierra del Fuego gas pipeline by Petrobras and Total has forced Apache to re-inject a substantial volume of gas back into the ground. De Vido noted that the cut-off of Tierra del Fuego gas exports to the Canadian-owned Methenex plant in Chile would be "regularized" in the coming months and provide Apache a source of export revenue. The GOA, he added, would soon bid out the construction of the new gas pipeline from Tierra del Fuego to the Argentine mainland. Once this pipeline is completed in 2 years' time, he said, oil and gas producers in Tierra del Fuego should be able to expand production for domestic consumption significantly.

¶15. (SBU) On GoA efforts to build-up domestic energy infrastructure, De Vido noted the President's recent inauguration of the first of two gas turbines at a Campagna, Buenos Aires province generation facility. The turbines were funded by existing electricity generators in Argentina via agreed withholdings of capacity and variable cost payments due them by GA electricity wholesaler CAMMESA. The second turbine, he said, would be up and running in May, for a total addition to domestic generation capacity of 1,100 MW. Looking to the future, De Vido said that the 700 MW Atucha II atomic energy facility is scheduled for completion in October 2010 with 5,000 workers currently employed in its construction.

¶16. (SBU) Ambassador noted Energy Secretary Daniel Cameron's participation in the February 2008 WIREC renewable energy (RE) conference in Washington. He encouraged Argentina to move forward on Cameron's earlier idea (Ref BsAs 407) of joining the more than 100 nations who have made voluntary WIREC pledges, taking credit for Argentina's current RE efforts, including legislation on the books requiring that 5% of diesel fuel be sourced from bio-diesel by ¶2010.

¶17. (SBU) On the polemical November 2007 increase in mining sector export tariffs, De Vido acknowledged that this could be interpreted as contradicting 1990s-era mining legislation that ensured 30 years of contractual stability. But the increase in global commodity prices, he said, had boosted mining sector profit margins from the 15-18% range to the 28% range, and the GoA was committed to recycling a portion of additional revenues collected via increased export tariffs to mining province-specific infrastructure development to maintain a "virtuous investment cycle." He noted the example of UK/Swiss mining company Xstrata which controls the world-class Bajo de Alumbraera gold mine in Catamarca province. Additional taxes collected from this company will be used to fund a \$200 million/year fiduciary fund to develop provincial infrastructure, including roads and electricity public works that will benefit the mining operation itself.

Comment

¶18. (SBU) In his role as Planning Minister, De Vido is directly responsible for Argentina's public infrastructure, energy, telecom, transportation, and mining sectors. He also oversees a large -- and rapidly growing -- volume of government transfers and subsidies to these sectors that mark the GoA's interventionist economic policy model. As a senior advisor, presidential confidant and "penguin,"

one of a loyal inner circle who served with Nestor Kirchner while he was governor of Santa Cruz province, De Vido has taken on a broader "super minister" profile, and is considered by many to be Argentina's de facto Foreign Minister to Venezuela, Bolivia, and Ecuador.

De Vido is also widely reported to be the leading figure of the government faction battling with cabinet chief Alberto Fernandez and his allies. De Vido's group is portrayed in the press as more "interventionist" than Alberto Fernandez's group.

¶19. (SBU) De Vido has proven himself an important GoA interlocutor to address U.S. investor concerns. Post will continue to advocate aggressively on behalf of U.S. companies in Argentina many of whom, while profitable, remain concerned by infrastructure bottlenecks and unpredictable shifts in the GoA's regulatory and tax regimes.

WAYNE